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ABSTRACT

In conjunction with the United States Constitution's Bicentennial, this issue is devoted to the contributions the Constitution has made in shaping the U.S. economic system. The main article, "The Economics of the Constitution," provides important insights on how the Constitution influences the economic system through answers to the following questions: (1) "How Did the Constitution Come to be Written as It Is?"; (2) "Whose Interests Were Served by the Document?"; (3) "What Does the Constitution Say?"; (4) "How Important Was the Constitution at the Time and Subsequently?"; and (5) "What Are the Lessons to be Learned?" Included are teaching suggestions presented by four teams of writers in the areas of economics, U.S. history, government, and world history. The suggestions contain students' goals and teaching activities. (KWL)

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THE SENIOR ECONOMIST

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THE ECONOMICS OF THE U.S. CONSTITUTION

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Introduction

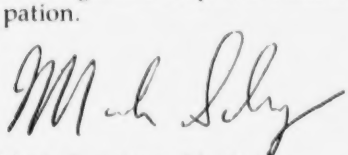
This school year marks the beginning of the Constitution's Bicentennial. In recognition of this important event, this edition of *The Senior Economist* is devoted to the contributions the Constitution has made in helping shape our economic system. Professor Douglass C. North, a distinguished economic historian, provides important insights on how the Constitution influenced our economic system. Teaching suggestions are presented by four teams of writers, each featuring a recognized economics educator and an experienced classroom teacher. We hope you find the background information and the teaching ideas useful.

We encourage social studies teachers from the different disciplines to examine the teaching ideas in each section – economics, U.S. history, government, and world history. Our focus on the Constitution has led our authors to develop activities that can be adapted for use in different courses. For example, several of the ideas suggested by Peter R. Senn and William J. Stepien in the Teaching Activities for Economics section could work well in a U.S. History course. This is true for each of the teaching ideas sections.

A new feature in this edition is the Response section. *The Senior Economist* focuses on key economic questions which are often controversial. Space limitations, of course, restrict our ability to represent all points of view in as much detail as we would like. The inclusion of the Response feature is an effort to more fully represent diverse points of view. We thank John Hoseman, Senior Economist of the American Farm Bureau Federation, for his response to the last edition's lead article on the federal deficit by Professor Walter Heller and Professor Bruce Dalgaard of the University of Minnesota.

As another new service to our readers, we are publishing a list of JCEE affiliated Councils and Centers for Economic Education. This network offers a wide range of services to high school teachers including inservice courses, workshops, and curriculum materials. Check this directory to find the Council in your state. Contact the Council Director to find out about economics education opportunities available to you.

Finally, we wish to recognize *The Senior Economist*'s newly established Advisory Committee. This group of distinguished leaders in economics education and related areas helps to select issues and assists in reviewing manuscripts. We thank them for their participation.



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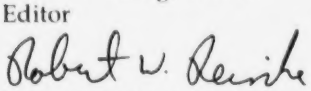

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Professional Library

The Professional Library features the latest information on the revised edition of the JCEE Test of Economic Literacy. Also highlighted are the "box" — an economics curriculum package for teachers — and a recent JCEE publication on labor unions.

TEST OF ECONOMIC LITERACY The JCEE is pleased to announce the availability of a new assessment instrument for senior high school students of economics, the TEST OF ECONOMIC LITERACY (revised edition). Available in two forms containing 46 questions each, the TEL is based upon content included in the JCEE's FRAMEWORK FOR TEACHING THE BASIC CONCEPTS, second edition (1984). The Discussion Guide and Rationale (No. 369) are forthcoming.

The TEL can be used to assess students' economic understanding on a pre-test and post-test basis. Norms based on student performances in schools throughout the country permit users to assess how their students' learning compares with students elsewhere. The test can also serve as a basis for research on effective teaching in economics.

Teachers wanting to assess the influence of their instruction on students will find the test, and the accompanying user's manual, to be useful. States with legislative mandates in economics will find the test to be a practical tool for assessing the economic literacy of students.

The test was developed by Dr. John C. Soper, John Carroll University and Dr. William B. Walstad, University of Nebraska, Lincoln.

Further information about the test can be obtained by writing the JCEE's publications office. (Form A No. 370) $9.95, (Form B No. 371) $9.95

THE ROLE OF UNIONS IN THE AMERICAN ECONOMY This book is a background review for teachers that has been expanded and substantially revised from the original 1976 edition. The authors take into account the many changes that have affected labor unions since, including trends in membership, finances, and strikes; safety and health legislation; worker participation in determining how to improve productivity and job satisfaction; the impact of increased imports; and the effects of general economic developments. The authors also discuss the reasons labor unions arise in industrial societies, the position of unions in the United States, the main influences on them, the history of U.S. labor unions, and the problems they raise and confront. The authors conclude with an appraisal of the principal factors that currently affect organized labor in this country. By Ray Marshall and Brian Rungeling, 1984, 172 pp. (No. 337) $8.50

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Budget Deficits: Alternative Views

by John K. Hoseman

Senior Economist, American Farm Bureau Federation

"The Federal Budget Deficit: Challenges and Opportunities for Policy Makers" by Professors Dalgaard and Heller contains "normative" suggestions that are sometimes seriously flawed and/or one-sided. Designed to introduce relevant economic principles and policy issues so that high school students can make more informed judgments, it is unfortunate that alternative "models" followed by economists who do not subscribe to Professors Heller and Dalgaard's views are so conspicuously absent. Reservations are especially relevant with regard to the likelihood that discretionary macroeconomic policy will be, on balance, beneficial, and the preferences expressed by the authors on the role and degree of government involvement in a market oriented economy.

The expressed concern that Gramm-Rudman would create a "fiscal straightjacket" follows only in a world where the assumption is made that discretionary fiscal policy can, in fact, reduce the cyclical volatility of the economy. It is stated that "Many economists agree that this process must allow flexibility for fiscal policies to deal with any economic downturn," without any mention of the sizeable body of opinion and scholarship which questions the probability of a beneficial, fine-tuning fiscal policy.

In the same frame of reference, the authors conclude that "as deficits are cut and fiscal policy tightens, we have to run an easier, more stimulative monetary policy." However, the implicit premise is that fiscal actions have a permanent impact on the level of economic activity. While this view remains popular, I believe that it no longer represents the majority view of professional economists. Faster money growth, other things constant, would eventually mean higher prices whatever the state of balance in the budget. The assertion that "deficits do tend to stimulate the economy" makes no distinction between the possible short-term impact of fiscal actions versus the longer term. Why, for example, have record deficits in 1984-86 NOT been associated with a stronger economy if fiscal policy is so powerful?

The most dramatic example of ideological bias is found in the statement that "we need to utilize tax increases" to balance the budget because "the U.S. has the lowest tax burden of any advanced country." The clear and unequivocal suggestion is that higher taxes are good and lower taxes are bad. The preference for LOWER tax rates, however, is broadly held by both "liberals" and "conservatives."

Is it really true that "Increased growth means increased tax revenues thus making deficit reductions less painful"? Implicit in this assertion is the proposition that the material losses of people paying higher taxes are more than offset by the benefits of those who continue to receive benefits from federal outlays. Even with indexing, higher incomes in a progressive tax system will move individuals into higher REAL tax brackets. To what extent is that consistent with the "need to encourage economic expansion through . . . increased productivity"?

Similarly, the one-phrase dismissal of "supply-side" arguments (e.g. incentives, work effort, saving, and entrepreneurship) by stating "that the recovery came about because of deficit spending by the government" is a less than fair treatment of the incentive effects of the 1984 tax cuts. And the deficit totally ignores the role of monetary factors.

The discussion of the foreign exchange value of the dollar and the international trade deficit also takes as self-evident some of the conventional wisdom regarding the influence of the budget deficit in all this. Suffice it to say, with limited space, alternative perspectives on this issue are also available, but absent.

Finally, it is not generally possible to "reduce the budget deficit in a way that does not increase economic hardship." Hidden in this claim is the proposition that everyone agrees that higher taxes (especially for the rich, or even the middle-class) don't really hurt very much while federal outlay reductions do. In fact, whether one is talking about making government larger or smaller, someone gets hurt. The impacts of allocational and/or distributional government actions necessarily make some folks better off while making others worse off. That is the nature of the beast and should have been noted.

In summary, the effort to develop materials for improving economic literacy in our high schools is highly desirable. It is unfortunate, however, that the basic principles developed in the Heller and Dalgaard paper assume a "model" to which many subscribed in years past, but which more recent scholarship suggests is both too simplistic and too optimistic regarding the government's power to do good. In this particular case, Heller and Dalgaard's biases come at the expense of a number of other points of view. Sadly, a more even handed presentation of the key analytical and policy issues as well as alternative ideologies which govern our views of "fair," "good," and "best" would have been appropriate.

(The author acknowledges the insights of his associate, Donald B. Billings in preparing these comments.)

The Economics of the Constitution

by Douglass C. North

Professor Douglass North is Luce Professor of Law and Liberty in the Department of Economics at Washington University in St. Louis and Director of the Center in Political Economy. He was editor of ***the Journal of Economic History*** *for five years and was recently appointed editor of the Cambridge Series of books and monographs on "The Political Economy of Institutions and Decisions."*

It is now two hundred years since the Constitutional Convention drafted the Constitution. That document thus is one of the most durable sources of rules in all of history. However, its origins and its significance have been and continue to be a source of controversy. In this essay, I shall try to provide some tentative answers to the following questions. 1) How did the Constitution come to be written as it is? 2) Whose interests were served by the document? 3) What does it say? 4) How important was it at the time and for subsequent generations? 5) What are the lessons to be learned with respect to calling a new constitutional convention to rewrite it?

How Did the Constitution Come to be Written as It Is?

It is not often that people get a chance to shape their own history from the ground up. Usually we think of history evolving in an incremental way, through the choices and decisions of people as they stem one from another through time. But the Constitutional Convention that followed the creation of the new nation certainly presented the opportunity for its convenors to create an entirely new set of rules. However, both the past and the issues of the time provided constraints. The ideas embodied in the Constitution were forged in the struggle between Parliament and the Crown in the revolutionary 17th Century in England, by the charters of the colonies, and by the ideas that were current in 18th Century England.

The year 1776 produced not one but two documents of historically significant importance to the new nation. One, of course, was the Declaration of Independence. The other was Adam Smith's *Wealth of Nations*. In the course of writing what has come to be thought of as the foundation stone of modern economics, Smith inveighed against the evils of the system that he perceived had dominated England and Europe up to that time, a system he called mercantilism. Mercantilism was a system in which the government was deeply involved in the operation of the economy, providing subsidies, bounties, and monopolistic privileges to individual companies through the assignment of exclusive privileges and trading rights. Adam Smith felt that mercantilism was an inefficient system that fostered monopoly. In contrast, Smith argued that the main basis for economic growth and efficiency was specialization and division of labor. Efficiency came from specialization in the production and distribution process. He argued that by allowing each person to concentrate on doing just one thing repetitively, goods could be produced more rapidly and efficiently. He believed that competition in the market would force people to become more efficient and would encourage improvements in technology and productive expansion. Thus, rather than artificial inducements to produce: bounty and subsidy, Smith believed that free markets, which valued the relative gains of producing different kinds of things, provided the proper incentives for productive economic activity.

The conflict between Adam Smith's view and the traditional mercantilist view was certainly much in the minds of the Americans in the 1780s as they struggled to resolve the many problems they faced. Separated from England, they no longer enjoyed the privileges of operating within her Navigation Acts, which had assured the colonies protected markets against foreign competition. Moreover, at home they faced huge debts accumulated in the course of the Revolutionary War (including the problem of paying the soldiers of the Revolutionary War who had been promised substantial benefits), the need to raise taxes to operate government, and the need to provide protection to traders against Barbary Pirates in the Mediterranean.

And it was not just the ideas and the issues of the time that turned out to be decisive for this remarkable document. An extraordinary concatenation of events also affected it. Initially the Convention was called simply to overhaul the Articles of Confederation. The convenors were heavily loaded in favor of federalists rather than anti-federalists. Many anti-federalists believed that the Convention would be a failure and that they could do very little to improve conditions; thus, they simply would have nothing to do with it. What actually happened was quite different. The views of the convenors turned out to be near unanimity with respect to what ought to be done, and in short order they wrote a completely new constitution. Contrary to the anti-federalists, the federalists believed the new nation was in crisis and that in the absence of a new constitution it could not be held together. To assure and speed ratification, they suggested amendments to the Constitution that would be undertaken as soon as the new Constitution came into existence and the first Congress had been convened. Thus, the Bill of Rights was actually guaranteed in the course of the ratification controversy; in fact, it was essential for the

success of ratification. As a result, the anti-federalists, who foresaw failure at the Convention and failure in the ratification process, were confronted instead with a feasible document, which, with the additional guarantee of the Bill of Rights, also became a document that was ratified and that provided the basic rules of the new nation.

Whose Interests Were Served by the Document?

Was the Constitution a class document written narrowly in the interests of a small group? This controversy has existed ever since Charles Beard's celebrated book, entitled *The Economic Interpretation of the Constitution*, asked whether the Constitution reflected the disembodied wisdom of a group of disinterested individuals or a narrower set of interests of its framers. Put that way, the question is not a very interesting one. Surely the framers of the Constitution devised it in such a way that it was consistent with their long-run interests, but surely also their view was that it must be a viable political and economic document that could enable a nation to survive and thrive. In fact a major issue that shaped the writing of the Constitution was a concern with factions or interest groups of citizens bent on using the political process to further their own well-being. The most durable source of faction was the unequal distribution of wealth and income. In one of the most celebrated essays ever written in political theory, Federalist Paper No. 10 (written to support ratification), Madison argued that the aim of the constitutional convenors was to prevent factions from controlling the political system and using it in their interests. The Constitution did not make everyone equal. Some states did impose property qualifications in order to vote and therefore excluded the poorest members of society. Moreover, it is clear that the Constitution made it more costly to redistribute wealth from the rich to the poor than vice versa. Yet, it is equally obvious that this was not the prime consideration of the makers of the Constitution. The prime consideration, if we take Madison at his word, was to make all redistributive efforts by factions (of whatever kind) costly and to provide a framework that would encourage productive pursuits instead of redistributive efforts.

What Does the Constitution Say?

Overall, a major design of the Constitution, as the foregoing paragraph suggests, was to provide a set of checks and balances in the political process, so that no faction could, in short order, get control of the reins of government and redistribute wealth and income in their favor. This was done by providing for separate legislative, executive, and judicial bodies, each with checks upon the other, each with distinct and separate powers. State and federal government powers were also separated. There is no doubt that this federal form of government was an important source of decentralization in the political process and that it certainly raised the costs of an interest group coming to control the political process.

Now let's turn to specific economic issues. The Constitution enabled the federal government to levy taxes (an essential function of government if it is to survive), and to coin money and regulate its value. It gave the federal government authority over foreign affairs, including the negotiation of tariffs and treaties. It gave the federal government the right to regulate interstate commerce, thus prohibiting the states from erecting barriers to the interstate movement of goods, but also permitting the federal government to impose its own rules upon interstate commerce.

Certainly the more important contribution of the Constitution was that it established a framework for the efficient conduct of economic affairs. It defined the protection of private property and specified that contracts would be enforced; it stipulated rules for bankruptcy, an important element since bankruptcy implies a failure to live up to contracts. In short, it created a system of well specified property rights, which reduced uncertainty and permitted the development of free markets — essential, in Adam Smith's view for a productive economy.

How Important Was the Constitution at the Time and Subsequently?

Let me quote one of the leading students of the Constitution and one of the leading political scientists of our time, William Riker, Professor of Political Science at Rochester University.

> The Constitution was in a formal sense a necessary condition for those achievements. That is, had the Articles [of Confederation] survived, the nation would not have flourished. To see this, note the Constitution was, in a formal sense, necessary for political unity and the consequent political dominance of the United States, first in North America, expanding westward, then in the western hemisphere, restraining imperial expansion from Europe and finally in the world, helping to destroy, in two world wars, Western European monarchies and empires and countering the Soviet empire. All this depended on political unity; yet without the Constitution, North America might well have been as balkanized as South America.[1]

Clearly the Constitution was critical and came at a unique juncture in American history. But it would be foolish to think that rules alone are what count. Deifying the Constitution as a source of all that is good, sound, and stable in American history is surely ridiculous, for it is not just rules, but how they are enforced and the norms of behavior that go with them that count. Let me quote Professor Riker again, in another context.

(Continued on last page)

The Constitution: An Economic Framework

by Peter R. Senn and William J. Stepien

Peter R. Senn is Professor Emeritus of Economics and Social Science at Wilbur Wright College and is a Field Representative of the Illinois Council of Economic Education. He is the author of books, articles and computer software in economics education.

William J. Stepien is a history teacher and Director of the merged library and computer center at the Illinois Mathematics and Science Academy. He has authored numerous books and other materials in social studies.

Introduction

The following teaching suggestions include a broad range of economic ideas. First, we suggest that you review with your students several of the problems which faced our nation under the Articles of Confederation including an economically weak central government and a large war debt. The second activity introduces students to the theory of mercantilism and how the ideas it represented were in contrast to the principles espoused by Adam Smith in his famous book *Wealth of Nations*. The students are invited to search the Constitution for examples of the influence of Adam Smith by looking for ideas related to free people and free markets. The third activity suggests that students work in pairs or trios and draw a series of connected circles on newsprint which illustrate the "ripple effects" that might take place if the Constitution were written differently. Finally, the students participate in a role play activity where they consider the economic impact of various pieces of legislation.

Student Goals

1. Students recognize that the economic ideas of the Constitution developed from a specific historical setting by identifying some economic problems of the Revolutionary War, such as war debts, and of the Articles of Confederation such as the inability to regulate interstate commerce.
2. Students recognize that the Constitution can be altered to meet the conditions of the times by giving examples of changes as with slavery.
3. Students show that they understand the relationship between the Constitution and economics by identifying the sections of the Constitution having economic importance.
4. Students recognize the economic impact of the Constitution by describing the possible consequences of changing it.
5. Students analyze proposed changes in laws by describing the trade-offs and opportunity costs of the changes.

Teaching Activities

I. Articles of Confederation

Remind the class that by the summer of 1776 thirteen independent states had been created from the original British colonies. Because they knew they would have to unite to win the War of Independence, delegates from these states met in the Continental Congress even though they were not sure of the kind of union they wanted or needed.

In 1777 the delegates adopted the Articles of Confederation. The articles created a loose union of free and independent states called the United States of America. The Articles were adopted by all the states in 1781. The Continental Congress became the governing body.

Explain the economic powers of the Articles of Confederation:

— The Continental Congress could establish a postal service, regulate the currency, and borrow money.

— It could not regulate interstate or foreign commerce, levy taxes, or enforce its laws because it contained no provision for an executive or federal judiciary.

— The end of the War for Independence left Congress facing huge debts, both public and private; depreciated paper money of uncertain value because seven states had also issued their own currency; lost trade including that of the Mediterranean because of piracy and other economic problems which led to a post-war depression.

The Treaty of Paris in 1783 ended the war but not until the Philadelphia Convention of 1787 was a new Constitution written.

Ask the students how the conditions that follow might have affected the economic life of the new states.

— In view of the war debt, how might the inability to regulate interstate trade create economic problems for the new nation?

— How might states issuing their own currency confuse matters?

II. The Constitution - A Framework for Economic Growth

Explain to the class that British economic policies toward the colonies were guided by a set of ideas called mercantilism. The overall goal of mercantilism was to increase the power and wealth of England. Other aims were to make the British empire self-sufficient and guarantee the profits of trade to the English. The colonies were supposed to supply goods that England needed and provide markets for the goods England had to sell.

As Professor North explained, the policies of mercantilism included many kinds of restrictions on trade, subsidies for the production of certain kinds of goods and the granting of various monopolies. Government played a large and arbitrary role in the economy.

In 1776, Adam Smith published a book called *Wealth of Nations*. In it he showed how mercantilism gave special privileges to selected special groups, promoted monopoly and was inefficient. Professor North noted that Smith called for a more limited role of government so that markets and decisions made by individuals could generate greater wealth and growth. The ideals of free men and free markets appealed to the Founding Fathers. They embodied many of them in the Constitution.

Ask the students to study the Constitution to find where each of the following topics is considered. (The teacher editions of most high school U.S. history texts have annotated copies of the Constitution which will provide background for discussion. U.S. history and government textbooks usually have complete copies for students to examine.) Then have the students explain how the Constitution's treatment of the topic is an example of the high value placed on a market economy and free people. This last step should be taken while considering the economic impact of the constitutional language examined.

1. Where is the final decision on slavery found? (Amendment XIII)
2. Where do bills for raising revenue originate? (Article I, Section 7)
3. Who has the power to levy and collect taxes and duties? (Article I, Section 8)
4. Who has the power to coin money and regulate its value? (Article I, Section 8)
5. What branch of government regulates business? (Article I, Section 8)
6. What branch of government has the power to make and ratify treaties? (Article II, Section 2, and Article I)
7. Where do you find whether or not states can tax items entering from other states? (Article I, Section 9)
8. Where does the Constitution explain whether one port can be given special preference over another? (Article I, Section 9)
9. How do you know that the Post Office is not a private business? (Article I, Section 8)
10. Where does the United States government get its power to build highways? (Article I, Section 8)
11. What section provides that our federal finances are a matter of public knowledge? (Article I, Section 9)
12. Who makes the rules about what goes on in territories or other properties belonging to the United States? (Article IV, Section 3)
13. What section prevents states from making their own money? (Article I, Section 10)
14. Can you sue the government if you think it has done something wrong? (Amendment 1)
15. Where does it say that property is protected by due process of law? (Amendment 5)
16. Do you have to be a taxpayer in order to vote? (Amendment 24)
17. Who has the power to tax goods entering the United States from other nations? (Article I, Section 8)

III. What if . . .?

Select one of the answers to the questions in Activity II and ask the students to consider what would happen if the opposite of that statement became true. For example, ask the students to speculate on the economic impact of making the Post Office into a private business, or, what might happen if the United States government could not coin money. Ask the students to discuss the changes that might occur in our way of life.

Point out that in most instances these changes have an effect on many segments of society. The change ripples throughout society creating numerous other changes which initiate even further change.

To illustrate this concept graphically, organize the students into pairs or triads. Give each a piece of newsprint. Ask the students to place a circle about the size of a half dollar in the middle of the newsprint. For example, inside the circle have the students write that the Post Office is now a private business. Ask the groups to each come up with a change that might result from the Post Office moving into the private sector. Tell the groups to write this change on their newsprint in another circle near the circle in the center of the page. When they have completed that, connect the two circles with a straight line.

Now have the students consider the change they have just written in the second circle. Considering just that change, what further changes might happen in our way of life? Each new change should be written in a circle clustered near the second circle and each change should be connected with the second circle by a straight line.

Now direct the attention of the students to each of the new changes they have just written into circles on the page. Ask the students to consider further changes which might result from each of the last wave of changes. When they have completed this operation, ask them to go back to the original change in the middle of the page and have them consider another

major change in our way of life which would result from the Post Office becoming a private business. This change should be described in a circle which is connected to the original circle in the middle of the page by a straight line. It becomes evident that when a change happens in our society, it causes secondary, tertiary and even more removed changes to occur.

When the students have completed 10 or 15 minutes of identifying changes, give each group an additional piece of newsprint and have them pick one of the items discussed in Activity II and treat it as a "What if?" statement. For example, have them consider what might happen if the government could confiscate property without due process of law? What if a person had to be a taxpayer or property owner in order to vote? What if the executive branch of government could create taxes without the check or balance of the legislative and judicial branches?

When the students have completed 20 minutes of work in identifying changes, the groups should share their changes with the class. Special attention should be given to positive and negative results from the initial change.

IV. New Laws and the Economy: A Simulation

Action or inaction by Congress and President in passing new legislation has numerous effects on the American economy. Three important areas of our economic system can be directly influenced by acts of Congress: inflation, unemployment, and growth. Even though the Constitution established an environment for a free enterprise economy, the fact that the federal government participates in the economy makes it an important economic force.

Three bills are presented as examples. Assume that each has been introduced in Congress. Ask the students to speculate on how each might affect unemployment, economic growth and inflation. After the class has speculated on the impact of each bill, divide the class into two unequal groups, one having just slightly larger membership than the other. This simulates two political parties with unequal power in one of the houses of Congress.

Next establish special interest groups on either side of the aisle by further dividing each group into subgroups of legislators representing manufacturers, agriculture, hawks, doves, liberals, conservatives or other groups which might have conflicting ideas about each piece of legislation. As each bill is introduced into Congress for debate, ask the students to express their viewpoints, especially their economic viewpoints, on each piece of legislation, keeping in mind that they represent a particular philosophical position on each issue. For simplicity's sake, assume that each bill can be passed by simple majority of students voting.

With the teacher acting as President, each bill that is passed is placed on the President's desk for signature. The President has the option of signing the bill into law or returning the bill to Congress through the veto process. Then the students can attempt to override the veto by a 2/3 vote.

Before discussion of each bill in class, establish current economic conditions for our country by writing information on the chalkboard. Consider starting with 7% unemployment. The rate of inflation for the country might be 6%. Economic growth might be 3%. As each bill is passed, defeated, or vetoed, discuss what affect that action might have on each of the three rates on the board. Increase or decrease each rate before moving on to the next bill. This provides new economic conditions for each of the pending bills.

Bill #1. Subsidy for Grain Prices

Farm incomes have been declining and the market value of grain crops has been dropping. This bill would give farmers a subsidy of $1 per bushel on all grain products produced this coming year.

Possible positive effects include increased farm output, improved farm related business, more grain exports, reduced consumers' cost for food. Possible negative effects include an increased grain surplus, lower market price for farm goods, increased cost of government programs.

Depending on the economy as a whole, these changes could occur.

(U) Unemployment - stays the same or decreases slightly

(G) Growth - declines slightly

(I) Inflation - increases slightly

Bill #2. Domestic Parts in United States Cars

Many cars in the United States are imported. This new law would require that 75% of all parts in cars sold in the United States be produced domestically.

A possible positive effect is more jobs in auto related industries. Possible negative effects are increased consumer prices for cars and fewer US exports.

Bill #3. Reduction of the Minimum Wage

Business firms can maintain a dual minimum wage standard. Workers under 21 can be paid $1 less an hour than workers over 21, even though both groups are doing the same type of work.

Possible positive effects are reduced cost of production and an increased number of employed teens. Possible negative effect includes more competition for jobs and increased unemployment for some older workers.

U - decreases; G - increases; I - decreases

Several other bills must be introduced to the students involving defense spending, welfare programs, space research or any number of other areas. As the students ponder each piece of legislation they should be made aware of the economic conditions of the nation. At the completion of the activity the students should discuss how the pressure of economic conditions might have influenced the voting on each piece of legislation.

Note: Additional teaching ideas are available in *Teaching Strategies: High School Economics Courses* by John S. Morton published by the Joint Council on Economic Education. See the "box" in the Professional Library, page 3.

Enduring Constitutional Issues: The Economic Role of Government and Coining Money

by Michael Watts and Robert Troyer

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Robert Troyer has taught economics and U.S. history at West Lafayette High School the past 14 years. He received his B.S. degree in economics and his Master's degree in educational administration from Purdue University.

Introduction

Since the time of Adam Smith, economists have disagreed about what is the economic role of government in a market economy. There has been general and long-standing disagreement among economists and the public about how the government should carry out many parts of that role. This economic role is normally taken for granted in good times, intensely debated in hard times, and widely misunderstood all of the time.

The following activities demonstrate this to your students. Through a role playing activity and by using the Constitution as a primary source document, students identify the economic functions assigned to the federal government and classify those functions using a six-item table. Next, students review a long series of frequently stormy incidents in U.S. history related to the specific role of "coining money" and regulating its value.

Student Goals

1. Students analyze the economic role of government by convening a "Constitutional Convention" to write a new section of the Constitution, and compare their report to existing sections of the Constitution.
2. Students identify how money is created and analyze government's role in historical incidents related to issues of money, public debt and monetary policy in the United States.

Teaching Activities

I. Role Playing: A Constitutional Convention in 1988

Explain to the students that new technologies, expanded international relations and competition, and the higher standards of living we enjoy today have led many to question whether a document written and adopted 200 years ago for a rural, agrarian society can adequately serve our complex, urban-industrial society.

Inform your class that they have been elected as delegates to attend a Constitutional Convention charged with writing a new section of the Constitution. It should focus on economic areas of government responsibility. Divide the class into small groups and distribute the following handout to guide the students' work.

Delegate Information

Congratulations! You have been elected to serve as a delegate to a new Constitutional Convention. Your task is to help decide what the economic role of government should be. As you decide, consider your own economic goals such as having a good job, owning a car, maintaining a healthy family, or living in a safe community. You should also consider the overall, long term needs of our economy such as how to best ensure economic growth and high levels of employment.

Use the following list of potential government activities to help you define the economic role of government you favor.

What responsibility should the federal government have in each area? Why?

Area of Government Action	What?	Why?
1. National defense		
2. Economic security of individuals		
3. Law enforcement		
4. Education		
5. Environmental protection		
6. Highway and transportation		
7. Farm aid		
8. Interstate commerce		
9. Foreign aid		
10. Space program		

After the groups have had time to work, hold a class discussion. Summarize their findings on the chalkboard.

Present the table below to students on a handout or overhead transparency. Review it with students, and ask them to compare the results of their Constitutional Convention to this standard summary of the economic role of goverment. Allow the students to expand, reduce or revise their recommendations after reviewing the table.

The Economic Functions of Government in a Market Economy

Function	Explanation	Examples
1. Maintain a legal and social environment.	Markets work effectively if property rights are clearly defined, contracts are enforced, standardized units of currency and weights and measures are recognized, and barriers to trade and social and political uncertainties are minimized.	Printing currency and minting coins; judicial and police systems; prohibiting state and local government restrictions on interstate trade.
2. Maintaining Competition	Limiting monopoly power or, in cases like public utilities (natural monopolies) where it is impractical to have more than one producer, regulating prices, profits and product delivery.	Antitrust laws and enforcement agencies at the Department of Justice; state public utility commissions.
3. Redistribution of Income	Insuring that those who can not earn a living by working or selling land or capital will have an adequate "safety net" of income transfers and social programs. More broadly, the debate on how tax and spending programs should be used to help lower, middle and upper income groups is a never-ending political issue.	Aid to Families with Dependent Children (AFDC), Social Security, and food stamp programs, as well as progressive, proportional and regressive elements of all taxation and government spending policies.
4. Providing Public Goods	Goods or services characterized by non-rival and non-exclusion properties. A good is non-rival if one person's consumption of the product does not reduce the amount available to others. Non-exclusion means it is impossible to withhold a product that is produced from those who have not paid for it.	National defense; lighthouses; highways and bridges when traffic congestion is not a problem.
5. Adjusting for external (spillover) benefits and costs.	If some of the benefits or costs of a service fall on someone other than the buyers and sellers of the product, those "third party" benefits/costs will not be reflected in the market price and production levels. Government agencies can use regulation, tax or subsidy programs to see that these costs and benefits are recognized.	Taxes on pollution or regulations prohibiting pollution; subsidies for home ownership, vaccinations and diagnosis of communicable diseases, and education.
6. Stabilization Policies	The federal government can use monetary (spending) and fiscal (taxing) policies to promote full employment, stable prices and growth, and maintain individual and business incentives to work, save and invest.	The Federal Reserve System; changes in the level of federal spending and taxation, and in marginal tax rates.

II. The Constitution as a Primary Source Document

Using the six categories developed in the table presented above, ask students to read the Constitution and list each of the economic functions of government. Then compare the ideas developed in their classroom Constitutional Convention to that prepared by the original framers of the Constitution, as modified through the amendment process. After discussion, have the class vote on which list would better serve the United States today as a statement of the appropriate economic functions of government.

An outline of the major economic functions identified in the Constitution is presented below:

1) Legal and Social Environment

Justice, domestic tranquility and liberty are endorsed in the Preamble; uniform federal taxes are authorized; foreign and inter-state trade may be regulated only by the federal government; uniform bankruptcy policies are established; the federal government is authorized to coin money, prosecute counterfeiters and establish standard weights and measures; copyrights, patents and other general programs to promote science and the arts are authorized; a post office service is authorized; individual property rights are clarified by restricting the government's right to quarter soldiers in private houses and conduct searches or seize property; property rights to slaves were originally recognized, then repealed; property rights to "intoxicating beverages" were disallowed in 1920, but reestablished in 1933; state governments are prohibited from printing currency or imposing taxes on imports and exports (except to fund basic inspection programs of imports) without federal authorization; the President is required to provide a State of the Union address and authorized to recommend policies and legislation, including a federal budget; and the debts of the Confederation, including debts to veterans of the Revolutionary War, were assumed by the

federal government. Relevant sections of the Constitution are the Preamble; Article 1, Sections 2, 7, 8 and 9; Article 2, Section 3; Article 4, Section 2; Article 6; and the 3rd, 4th, 13th, 14th, 16th, 18th and 21st Amendments.

2) Maintaining Competition

The federal government was authorized to regulate interstate trade through legislation and executive department regulations (Article 1, Section 8).

3) Income Redistribution

The goal of "promoting the general welfare" is established in the Preamble. Relevent spending and taxation programs are authorized in Article 1 and the 16th Amendment.

4) Public Goods

National defense programs are discussed in the Preamble and in Article 1, Section 8, which also authorizes federal roads.

5) Externalities/Spillovers

These are not specifically addressed, but authorized under the general legislative and executive provisions of Articles 1 and 2, and encompassed in the goals of the Preamble.

6) Stabilization Policies

Included in the authorizations for federal borrowing (Article 1, Section 8), taxation (Article 1, Sections 1 and 7, and the 16th Amendment), spending (Articles 1 and 2), and regulation of the value of money (Article 1, Section 8). The provision allowing federal debt (Article 1, Section 8, Clause 2) extended by the "implied power" clause authorizing proper implementation of any expressed power (Article 1, Section 8, Clause 18) forms the basis of Congressional power to create a national banking system. The "general welfare" provision of the Preamble combined with the explicit concern for future generations is suggestive of such goals as full employment, stable prices, and economic growth.

III. Coining Money and Regulating Its Value

Money, public debt, and the power of federal, state and local governments to levy taxes have been closely linked throughout the history of the United States. From the Continental Congress up to the record federal deficits of the early 1980's, the role of coining money and regulating its value has been a controversial economic function of government. In order for students to understand major issues and incidents involving money, monetary policy, and debt in U.S. history, they need to understand the role banks play in creating money through loans. To illustrate this principle, have the students do the following exercise.

Ask the students to imagine that the balance sheet below represents a newly formed bank.

Assets		Liabilities	
Property and Equipment	$350,000	Stockholders Equity	$400,000
Cash Reserves	150,000	Demand Deposits	100,000
	$500,000		$500,000

Assume the reserve requirement on demand deposits (checking accounts) is 10%. The reserve requirement is the amount the bank may not lend but must keep in reserve according to the Federal Reserve System.

1. How much money may this bank lend? ($140,000 since the bank must keep 10% of demand deposits ($10,000) and the bank has $150,000 in cash reserves.)
2. When this bank lends out $140,000, money has been created in the form of new demand deposits. Most of that will be held in other banks, which can now make new loans after holding the 10% reserve requirement.
3. How will this bank's loans ultimately affect the amount of money and credit available in the economy? (Explain that the Monetary Multiplier m = 1/R, where R = the required reserve ratio. In this case m = 10 (i.e., 1/.1); therefore every new deposit of $1 in the banking system can eventually result in $10 of new money if it is always loaned out to the greatest possible extent. R is set by the Federal Reserve System.)

You may wish to extend this activity by asking the students to research the following time line items. These reports could be assigned as you come to units focusing on the time periods involved. The student reports should cover the following: a brief summary of the issue; related constitutional issues/themes; questions on the economic role of government in a market economy, including the ability of government to perform these roles effectively.

1776-1788	Public debt under the Articles of Confederation
1791-1811	Alexander Hamilton and the Bank of the United States
1816	Nicholas Biddle and the Second Bank of the United States
1832	Andrew Jackson Vetoes the Charter of the Second Bank of the United States
1861-1865	Public Debt from the Civil War and the 14th Amendment
1896	Free Coinage of Silver and the "Cross of Gold"
1913	Creation of the Federal Reserve System
1932-1945	The National Debt in the Depression and World War II
1971	The Demise of the Gold Standard and the Bretton Woods Agreement
1980	The Monetary Control Act
1986	The Gramm-Rudman-Hollings Act

IV. Financial Deregulation, Competition and Your Community

In 1980 Congress passed the Monetary Control Act. This allowed many new organizations, including brokerage firms, insurance companies, national retail chains and even labor unions, to provide financial services formerly offered only by commercial banks. Invite a local banker or a member of the state banking association to speak to the class on the effect of such changes at the state and local levels.

Note: Additional teaching ideas are available in *Strategies for Teaching Economics: United States History* by James O'Neill and *Teaching Economics in American History* by George G. Dawson and Edward C. Prehn both published by the Joint Council on Economic Education. See the "box" in the Professional Library, page 3 for more information on the O'Neill publication.

BEST COPY AVAILABLE

The Federal Government and Interstate Commerce

by Lucien Ellington and Ruth K. Dunning

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Introduction

The United States Constitution gives Congress the power to regulate interstate commerce. The commerce clause of the Constitution has been and remains a major source of federal power in economic and commercial regulation and control.

In the following teaching activities, students trace the evolution of the interstate commerce clause by comparing and contrasting the changing definitions assigned by the government to such key terms as "commerce" and "regulate." The result should be better understanding of the profound effects upon our economy by this section of the Constitution. In addition, these activities demonstrate the Constitution's ability to change over time in reaction to changing economic conditions.

Student Goals

1. Students examine the interstate commerce clause and define important terms in it.
2. Students analyze James Madison's and Alexander Hamilton's arguments that the federal government should regulate interstate commerce.
3. Through analysis of *Gibbons vs. Ogden*, students recognize the relationship between government interpretation of the commerce clause and the scope of governmental power over economic activity.
4. Students recognize the relationship between the interstate commerce clause of the Constitution and government regulation of the economy in the 20th century.
5. Students become aware of several major arguments for and against government regulation of economic activity.

Teaching Activities

I. The Origins of the Commerce Clause

Write the interstate commerce clause on the chalkboard. Explain that the clause is part of the section of the U.S. Constitution where the powers of Congress are listed (Art. 1, Sect. 8). *The Interstate Commerce Clause:*

> Congress shall have the power "to regulate commerce with foreign nations and among the several states and with the Indian tribes."

Ask students to write down what they think the terms "commerce" and "regulate" mean. Have a few students read their definitions aloud. Ask students for possible reasons why the framers of the Constitution believed commerce among states should be regulated by the federal government. To assist students in understanding the importance of commerce regulation and the issues involved, give each student a copy of Handout #1, which has two excerpts from *The Federalist Papers*, #42 and #11.

HANDOUT 1: THE FEDERALIST PAPERS

The Founding Fathers on the Commerce Clause

(#42 James Madison) "A material object of this power was the relief of the States which import and export through other States from the improper contributions levied on them by the latter."

(#11 Alexander Hamilton) "An unrestrained intercourse between the states themselves will advance the trade of each by an interchange of their respective production.... Commercial enterprise will have much greater scope from the diversity in the different States."

After reading and thinking about the passages, have students answer the following questions:

— What were the major economic arguments of Madison and Hamilton to justify giving the federal government the power to regulate trade among the states?

— If each state has complete authority to establish trade policies with other states and foreign countries, what economic and political problems might arise?

Both Madison's and Hamilton's cases for regulation of interstate commerce by Congress are based on the economic benefits of *free trade* to the states. Madison believed that if one state placed high tariffs on another state's goods, political and economic friction would occur. Hamilton saw free trade as a mechanism to improve the national economy since one state could benefit from the economic activities of another. This specialization would provide individuals with access to a wider range of products and competition would be enhanced.

Depending on the economic knowledge of your students, you might wish to discuss in greater detail the economic concept of free trade by asking the following questions:

— What might be some economic benefits from an absence of tariffs?

— What groups or individuals in a given state might be hurt by a policy of no import fees on goods coming from another state?

— In what ways do people still care about free trade or protectionism today?

Explain to the students that when states (or nations) establish high tariffs, trade friction and resulting political problems usually occur. When left to their own devices, however, the American states did NOT generally establish excessive tariffs on each other's goods under the Articles of Confederation. One noteworthy exception did occur. In 1787 New York imposed a large fee on every sea vessel carrying goods from New Jersey. New Jersey retaliated by placing a tax on ships coming into New York that utilized the Sandy Hook lighthouse. The lighthouse stood on New Jersey soil, but it guided ships into New York Harbor.

II. *Gibbons vs Ogden.* The Federal Government Attempts to Define "Commerce" and "Regulate"

When your students were asked to define the two key terms in the commerce clause, the definitions probably varied considerably. In general, constitutional issues arise over exactly what key terms mean. This was the question in the landmark Supreme Court case of *Gibbons vs. Ogden*. Formulating a more precise definition of commerce, the court provided future opportunities for the federal government to regulate virtually any phase of American economic life.

Divide the class into small groups. Give each student a copy of Handout #2, which is a summation of the major facts concerning *Gibbons vs. Ogden*. Allow each group time to discuss the case and predict the outcome of the case by referring to Art. 1, Sect. 2 of the Constitution as well as remembering Madison's and Hamilton's views on free trade. Have each group appoint a spokesperson who can report the observations and predictions of the group to the rest of the class. Be sure students give reasons for their predictions.

HANDOUT 2: *GIBBONS VS. OGDEN*

In 1824 the steamboat was beginning to become an important means of transportation in the United States. Robert Fulton and his associates, including Aaron Ogden, were granted exclusive navigation rights on all waters within the state of New York. From the beginning, commercial steam was profitable as Fulton carried passengers both within the state and outside of its borders. Others who wanted to enter this business, including Thomas Gibbons, argued that such a grant was in violation of the interstate commerce clause of the Constitution.

— How do you think the Supreme Court ruled? Why?

— Was the grant from the state of New York to Fulton and Ogden a violation of the interstate commerce clause? Why or why not?

Explain to the class that Chief Justice John Marshall, writing for the court, assigned a very broad meaning to commerce. "Commerce," he said, is "traffic, but it is something more — it is all kinds of intercourse." Marshall and his colleagues not only included such activities as navigation in the definition of commerce but went on to give the federal government the power to regulate commerce that was completely internal to a state if such commerce could be proven to have an effect on other states. Thus Gibbons' victory set the stage for the creation of the first federal government regulatory agency. Fifty-three years later, the Interstate Commerce Commission was established in 1887.

III. The Commerce Clause and Federal Government Regulation in the 1980's

The Interstate Commerce Commission was established primarily to regulate the railroads. In the 20th century, however, Congress established a number of other regulatory commissions and passed numerous laws on the strength of its power to regulate commerce among the states.

Give each student Handout #3, which is a sample list of laws justified by Congress in whole or in part because of the commerce clause.

HANDOUT 3: THE COMMERCE CLAUSE AND FEDERAL PUBLIC POLICY

The following is a list of some of the laws passed by Congress based on the authority granted in the commerce clause. As you read over this list, consider whether you think the federal government should have authority in these areas.

Outlawing of yellow dog contracts
Providing for workman's compensation
Guaranteeing workers the right to collective bargaining
Establishing minimum wages
Prohibiting false or misleading advertising
Prohibiting impure or dangerous foods and drugs
Prohibiting racial discrimination by restaurants, hotels, or motels

After clarifying items on the list, ask students to examine their written definitions of "commerce" and "regulate" from Activity I.

Are there any items on the handout which they feel should not fall under the purview of the federal government as a result of the commerce clause? Give students a few minutes to voice their opinions about why a particular item that is regulated is or is not part of commerce. Assist students in generalizing about regulation of commerce as it relates to the Constitution. What do the historical facts and trends allow us to predict about future developments in this area?

IV. Ideas for Use of Community Resources in Teaching About Government Regulation

The commerce clause is the constitutional foundation for much federal government regulation of economic activity. After developing an understanding of the clause, students are ready to explore some of the arguments for and against regulation.

Several potential resource people include: workers at or managers of businesses and industries which must deal day-to-day with government regulation; school district administrators; officials of federal regulatory agencies; local college or university faculty from the economics and/or political science departments who specialize in or teach about regulation; an American historian who can provide an overview of the history of commerce regulation; attorneys who have expertise in commerce regulation.

If you have students interview community members about commerce regulation, have them include questions that focus on obtaining information about how regulation affects specific industries and arguments for and against regulation of various economic activities. After their interviews, students can give oral reports that summarize their data to the rest of the class.

You might also wish to arrange a panel discussion by community members on regulation of commerce for your classes. If community members are invited to class, another possibility might be a "press conference" on commerce regulation with students role playing the media and asking the guests prepared questions about the effects of regulation on specific industries and the case for and against federal regulation of different kinds of economic activities.

V. Basic Arguments For and Against Regulation

Although the basic arguments for and against government regulation are many and complex, Handout #4 should be helpful in introducing students to rudimentary aspects of the commerce regulation debate and in providing them with points of reference in developing their questions for the community interviews or guest speakers.

HANDOUT 4: DO WE NEED REGULATION OF COMMERCE?

Yes!

1. Government regulation helps protect the environment.
2. Government regulation protects consumers from hazardous substances or unfair advertising.
3. Government regulation promotes competition among particular industries, thereby lowering costs.
4. Government regulation reduces discrimination in employment.
5. Through such laws as minimum wage and workman's compensation, government regulations help prevent poverty.

No!

1. Protection of the environment can be achieved more efficiently and cheaply by the private sector.
2. No measure, including government regulation, can completely protect people against dishonest business people. However, the marketplace will eventually drive "fly-by-night" operations out.
3. Government regulation increases business costs, thus raising prices and reducing a business' ability to compete with similar businesses not confronted with similar regulation.
4. Government regulation raises business costs, thus lowering profits and endangering jobs of workers.
5. Government regulation is too inflexible and does not take into account the problems of specific industries.

Note: Additional teaching ideas are available in the *Economics and Political Science Series* which includes six resource guides published by the Joint Council on Economic Education.

Evolution from Mercantilism to Capitalism

by Shirley Hoover and Steven Miller

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Introduction

These teaching activities emphasize important developments in both economics and government for students of world history. Governments often adopt restrictive trade policies. The following activities help students understand the historical roots of these policies. One basis of these actions can be found in the theory of mercantilism discussed earlier by Professor North. Students need to see how nations were positively and negatively affected by mercantilism and why many eventually embraced the ideas of Adam Smith.

The first activity provides a context for the constitutional period by introducing students to the arguments in support of mercantilistic policies. The second activity focuses attention on Adam Smith's views through an excerpt from *Wealth of Nations*. In the last activity, students analyze evidence about the possible effects of less restricted world trade.

Student Goals

1. Students use data from a population growth chart and a description of mercantilism to develop arguments for and against mercantilism.
2. Using an excerpt from the writing of Adam Smith, the students explore arguments in support of reduced trade barriers.
3. Using data on England's foreign trade, students make tentative generalizations about the advantages of free trade.

Teaching Activities

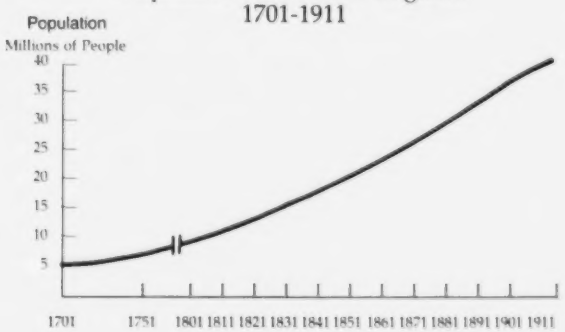
I. Mercantilism and its Critics

Explain to the students that mercantilism was the guiding economic philosophy of European governments for most of the 16th through the 18th centuries. England serves as a good example of mercantilistic ideas. Under mercantilism, the state controlled many aspects of economic activity, presumably to achieve greater general welfare. Especially important were policies that were thought to increase national wealth by decreasing the amount of imports while increasing the amount of exports.

Ask the students why some people might have believed that a greater amount of exports over imports would lead to increased national wealth.

Display the chart below. Ask the students why the information in this chart might lead some people to conclude that mercantilistic policies were necessary.

Population Growth in England
1701-1911



R.B. Jones, *Economic and Social History of England 1770-1977*. London: Longman Group Limited, 1979
Reprinted with permission

Explain to the class that the population in England was increasing. Concerns were growing that the increase in population would rapidly outstrip the limited amount of available natural resources. Famine would result. Population was only one of the changes which threatened England's economic and political power. Other reasons why people believed that mercantilism was necessary included:

— movement of the population from the countryside to urban areas.

— demand for higher standards of living.

— more industrialization with increased demand for raw materials.

— the shift from an agricultural to an industrial economy.

— the desire for colonies to provide raw materials while serving as markets for manufactured products.

Ask the students to imagine reasons why the American colonists might have opposed the English view of mercantilism. From the colonists' point of view, mercantilism interfered with their economic right to free trade by:

— regulating trade and commerce.

— supporting specific industries (such as shipbuilding).

— determining what would be produced by the payment of bounties for the production of specified commodities needed by England.

— establishing laws which restricted the freedom of trade with other countries. For example, the Navigation Acts required that British trade be carried in British ships.

II. Adam Smith and Mercantilism

Point out to the class that in 1776, two documents were written which were to influence the course of world history: The Declaration of Independence, outlining the injustices of England against the American colonies and *An Inquiry into the Nature and Causes of the Wealth of Nations* written by Adam Smith of Scotland. This expressed the belief that individuals should be free to pursue their self-interests in business affairs, without government interference. A French term that has been used to describe this philosophy is *laissez faire*. Furthermore, Smith argued that the general economic welfare of a society would increase under a trade policy of *laissez faire*.

Have students read the following excerpt from Adam Smith's work.

> The natural advantages which one country has over another in producing particular commodities, are sometimes so great, that it is acknowledged by all of the world to be in vain to struggle with them. By means of glasses, hot-beds, and hot-walls, very good grapes can be raised in Scotland, and very good wine, too, can be made of them, at about thirty times the expense for which at least equally good can be bought from foreign countries. Would it be reasonable law to prohibit the importation of all foreign wines, merely to encourage the making of claret and burgundy in Scotland? [From Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (London, 1870), pp. 183ff.]

Ask the students what Adam Smith's view is on free trade and why. Encourage them to come up with new examples similar to the one presented by Smith. For example, ask if people in Ohio should specialize in growing citus products.

Have the students scan the Declaration of Independence. (A copy of the Declaration can be found in most United States History textbooks.) They should identify the economic problems stated in the Declaration and discuss how Adam Smith's ideas applied to such economic problems.

Ask the students to imagine that England had followed Smith's advice by implementing a policy of free trade. Ask them to make a list of types of people in England and the American colonies who would have gained and lost under free trade. Ask them whether they agree with Smith that both economies on balance would have been better off.

III. Is Free Trade Worth It?

Explain to the students that most economists believe that free world trade is of mutual benefit to all nations. Tell them that this activity represents one way to begin to test this idea historically.

Provide students with the information on the chart below and graph paper. Ask them to make a graph showing the growth of England's foreign trade in the 18th century. After the graph is complete, ask them to make tentative generalizations about the growth of foreign trade in England in the 18th century. Students should be cautioned to keep in mind that the chart represents all foreign trade and not just trade with the American colonies. While England's foreign trade had increased dramatically by the end of the century, numerous factors, including less restricted trade with the United States, probably contributed to this dramatic change.

Examples of generalizations which students might make are:

— The American Revolution had a negative effect for the period of the War Years but thereafter growth increased at a much faster rate than before.

— Trade by the end of the century was ten times higher than it had been at the beginning of the century.

England's Foreign Trade by Year

Year		Pounds (in millions) of Foreign Trade
1700		7.7
1720		9.9
1740		13.0
1750		17.0
1770	(Years of the Amer-	20.0
1780	ican Revolution)	16.0
1790		30.0
1800		38.0
1810		50.0+

Note: Additional teaching ideas are available in *Strategies for Teaching Economics: World Studies* by James B. O'Neill published by the Joint Council on Economic Education. See the "box" in the Professional Library, page 3.

Affiliated Councils and Centers

The Joint Council on Economic Education has a vast network of affiliated Councils and Centers for Economic Education throughout the United States. Services provided by JCEE affiliates often include inservice courses, workshops, and assistance in curriculum implementation efforts. In order to better serve our readers, *The Senior Economist* is publishing an abbreviated directory of Councils and Centers. State Council Executive Directors with the telephone number are listed along with the location of the local Centers for Economic Education.

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(Continued from page 6)

> . . . Every time I convince myself that I have found an instance in which constitutional forms do make a difference for liberty, my discovery comes apart in my hands . . . it may just as easily be the case that the reason we have these constitutional forms is that we are a free people.[2]

As Riker is suggesting in this quote, the attitudes and the norms of behavior of people are terribly important and may be more important than the rules themselves. In fact, it took the decisions of the Marshall Court of 1801 to 1835 to transform the rules into specific decisions that directly affected how the polity and the economy worked. In short, it took subsequent enforcement and, as Riker has suggested, it took the attitudes and behavior of a free people to see that it worked. After all, the U.S. Constitution has been emulated and copied in many parts of the world where it hasn't worked at all.

What Are the Lessons to be Learned?

The foregoing suggests the answer to whether the Constitutional Convention can serve as a guide and to whether a new convention should be called now to solve all problems. There is no quick fix for the problems of a society. The extraordinary success of the original Constitution was a result of timing; it convened at a critical period in American history and was forged by a group with immense ability and common interests who had to make very few compromises with those who didn't believe in creating those rules. In the absence of all those conditions, it is doubtful that we could ever again create a document which could serve us as well.

Notes

[1] "The Lessons of 1787," *Public Choice*, forthcoming.
[2] *Public Choice*, 1976.

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